

# **2020/21**

# **audit fee scale**

**Opted-in local government, fire and police  
bodies**

**March 2020**

**Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.**

**In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.**

**From 2018/19 PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.**

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## Executive summary

1. This document formally sets the scale of fees for 2020/21 audits payable by local bodies that have opted into PSAA's appointing person scheme, and sets out the current issues that PSAA has taken into account.
2. This scale fee setting process has been complicated by the current huge pressures on the audit profession. Many of the challenges which the profession is facing are linked to significant concerns arising from a series of widely reported financial failures in the private sector. The local audit system has already been impacted by these developments and is likely to continue to be so until a more stable audit environment is re-established.
3. Government and stakeholders are at present digesting major reviews of audit by Sir John Kingman, the Competition and Markets Authority and Sir Donald Brydon. In the meantime, there remains significant uncertainty about the nature and extent of any resulting changes to be taken forward. In addition to the implications arising from these reviews, local audit will also be impacted by any changes resulting from Sir Tony Redmond's review of local government financial reporting and audit which is expected to conclude later this year.
4. In the short term, further developments are taking place in response to the coronavirus emergency. For example, IFRS 16 implementation has been deferred for a year and moves are afoot to vary the CIPFA/LASAAC Accounting Code requirements and to change the accounts and audit timetable.
5. Against this unprecedented backcloth, PSAA is carrying out various pieces of research to provide a detailed and up to date understanding of the local government audit market and help secure the long-term sustainability of audit supply. This includes surveying every audited body on their 2018/19 audit experience, assessing the current and potential local audit supply market, and examining the current costs of delivering Code of Audit Practice compliant audits.
6. Many anticipated changes, including imminent developments such as the new Code of Audit Practice requirements, will clearly affect all bodies. However, the scale of their impact is likely to vary depending on local circumstances and arrangements.
7. Despite all the uncertainty, PSAA must honour its statutory requirement to set the 2020/21 scale of fees before the start of the financial year, well ahead not only of the detailed audit work on 2020/21 itself but also the vast bulk of the work on 2019/20. In current circumstances we do not have sufficient reliable information that would enable us to adjust the scale of fees for 2020/21, and so have maintained the scale fee at the level set for 2019/20 before audit work had started. In practice we recognise that in the event, with so much turbulence and change in the environment, additional fees variations are likely to arise for many bodies.
8. In this context we believe that there is a compelling need for auditors and bodies to engage systematically with one another, to discuss and review key change factors and their implications for the body's risk profile and audit work. These discussions may include whether one-off or longer-term fee variations or adjustments may be appropriate, all of which would be subject to PSAA's procedures that are designed to meet our statutory duties, including that we review all proposed variations and that no fee variation can be charged without our approval.

9. This kind of engagement between the auditor and audited body is good practice, and is even more important in times of uncertainty when both sides are subject to such significant ongoing pressures.

## Introduction

**10.** This document sets out the fee scale for the audit work to be undertaken in respect of the 2020/21 financial statements at local bodies that have opted into Public Sector Audit Appointments' (PSAA) national auditor appointment scheme.

### PSAA's role

**11.** PSAA is specified by the Secretary of State for Housing, Communities and Local Government under the Local Audit and Accountability Act 2014 (the 2014 Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations) as the appointing person for principal local government bodies in England, including local police and fire bodies.

**12.** PSAA is responsible for providing an auditor appointment scheme for eligible bodies which choose to opt in. Other organisations such as the National Audit Office (NAO) and the Financial Reporting Council (FRC) have responsibility for setting the scope of auditors' work and regulating it.

**13.** The local audit system is currently being reviewed by Sir Tony Redmond as part of his review of local authority financial reporting and external audit. Our submission to the review is available from our website.

**14.** PSAA's role is to:

- appoint an auditor to all eligible authorities that have chosen to opt into the auditor appointments scheme rather than appoint their own auditor;
- set a scale or scales of fees; and
- monitor independence and contractual compliance of the audit firms it appoints to opted-in bodies.

### Scope of audit

**15.** Under the provisions of the 2014 Act, the NAO is responsible for publishing the statutory Code of Audit Practice for auditors of local public bodies. Further information on the Code and supporting guidance is available on the [NAO website](#).

**16.** The Code sets the overall scope of the audit, requiring the auditor to give an opinion on the financial statements of a principal body subject to audit and, from 2020/21, to provide a commentary on the arrangements for value for money (VFM).

**17.** Auditors are required to use judgement to design an audit approach that meets their statutory responsibilities under the Code and the 2014 Act. The Code requires auditors to carry out their work in compliance with the requirements of the relevant professional standards issued by the Financial Reporting Council and relevant quality control standards.

**18.** The Code requires that the auditor's work should be risk-based and proportionate. Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing an audited body and evaluating the arrangements it has put in place to manage those risks.

**19.** The audited body is responsible for putting in place appropriate arrangements to support the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

## Fee setting process

**20.** PSAA is legally required by the Regulations to set a scale of fees before the start of the financial year to which the fees relate and cannot amend the scale after the start of the relevant financial year. In practical terms, the fee scale must therefore be set more than a year before the relevant audit work is actually started, and before audit work is undertaken under the previous year's scale fee. This means for 2020/21 we are required to set the scale fee without complete data for 2018/19 audits or any data for 2019/20 audits. In the current audit climate of significant uncertainty and ongoing change, this poses very real challenges.

**21.** The Regulations allow the audit fee for an individual body to be varied if substantially more or less audit work is required than envisaged by the fee scale. Fee variations commonly affect a single year, for example where a change of systems requires additional audit work. In other cases, the reasons for a variation may point to the need for an ongoing change to the scale fee, for example where group accounts are needed. It has become clear there are underlying issues in the scale fees for some authorities where relevant changes in local circumstances have not been reflected in the ongoing scale fee and we will review these cases as and when they are brought to our attention by auditors.

**22.** The Regulations require PSAA to consult opted-in authorities, representative organisations and bodies of accountants before setting the fee scale. In practice PSAA consults with a wider group of stakeholders with the aim of seeking comprehensive feedback on its proposals.

## Further work on scale fees

**23.** During 2019 the PSAA Board commissioned a review of the scale fees framework. The aim is to develop a more in-depth understanding of concerns expressed in fees consultations and in other related independent research undertaken for PSAA, taking into account the turbulence in the wider audit environment. The report of recent [research on the sustainability of the local audit market](#), undertaken by independent consultants Touchstone Renard for PSAA, is published on our website.

**24.** The current level of scale fees is generating significant comment from audit firms, opted-in authorities and other stakeholders, and is a common theme for commentators on public audit. In most cases scale fees have reduced by 65% from the 2011/12 level. The reasons for these reductions include a significant reduction in Audit Commission activity from 2012/13, transfer of all the Commission's audit staff to firms, keen pricing from firms in successive procurements, improved audit efficiencies, and reductions in PSAA's costs.

**25.** There is now mounting pressure on fees as the scope of audit and the role of the auditor have come under renewed scrutiny. Recent high-profile corporate failures in the private sector, concerns about the financial resilience of some local government bodies and additional technical requirements have led to an increase in the amount of work auditors are undertaking to discharge their statutory responsibilities.

26. PSAA's fee setting process strives to take into account both the needs of opted-in bodies and the need for long-term sustainability of the local audit supply market. Our current review is exploring the arrangements for setting and varying scale fees.

27. The results of this review will be reported to the Board during 2020.

### **Next steps**

28. We welcome all the feedback received to our consultation and thank those who responded. We will publish a 'Q&A' on our website, setting out the main points arising from the consultation responses in more detail and providing answers to the particular issues raised. We will update the Q&A periodically to take account of ongoing developments affecting scale fees. We will also be publishing the results of our 2018/19 audit survey of S151 officers and Audit Committee Chairs.

29. The PSAA Board has reflected on the consultation outcome and takes very seriously all the points made. The matters raised are complex, and possible solutions must be considered in the context of the full range of views expressed by stakeholders, wider developments in local audit and the audit profession more generally, and the timetables within which fees must be set and audit work completed.

30. Subsequent sections of this document set out the fee scale for 2020/21 and the factors influencing the PSAA Board's decision in setting the fees.

### **Enquiries**

31. If you have questions about this fee scale document, please send them to us by email to: [workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk).

## 2020/21 fee consultation response

**32.** We consulted in January and February 2020 on the proposed fee scale for 2020/21. In the context of only partial data on 2018/19 audits, and in the absence of any data on the impact of current issues on 2019/20 audit work and fees, our consultation proposal was to set the fee scale at the same level as for 2019/20.

**33.** We acknowledge that it is highly likely that additional fees will be needed in 2020/21 at most if not all bodies. This is because of the work required as a result of the ongoing impact of increased regulatory requirements, new accounting and auditing standards, and potentially the requirements of the new Code of Audit Practice in relation to Value for Money arrangements (while the scope of the work is yet to be finalised, it is clear the reporting methodology is likely to require additional time). The impact of these changes is likely to vary between bodies, depending on local circumstances. PSAA's view is that it would be inequitable to apply a standard increase to all authorities in these circumstances, and in any case there is insufficient information available to arrive at any such 'standard' increase. In the current turbulent climate PSAA is, however, keen to engage with representative groups to share views and information about fees on an on-going basis.

**34.** We received 54 responses to our consultation on the 2020/21 fee scale from opted-in bodies, contracted audit firms, the LGA and two representative associations of district councils. This level of response is a significant increase compared to fees consultations in recent years (there were 30 responses to the 2019/20 fees consultation).

**35.** Key themes from the consultation responses and our observations and comments are summarised below.

### Overall consultation feedback

**36.** The responses to the consultation on the 2020/21 fee scale raise a range of important issues, often with very diverging and opposing views. Consultation responses from opted-in bodies are varied, with no majority view about the most appropriate approach to setting the 2020/21 fee scale. Around 35% of responses support accepting the consultation proposal, although they also raise concerns. In contrast, 46% of responses would prefer an across-the-board increase in scale fees in order to reduce the need for local discussions about fee variations.

**37.** The consultation responses we received from audit firms consistently present a strong view that the challenges of increased regulation, additional technical requirements and the tighter timetable mean that scale fees are no longer aligned with the level of audit work now required. Firms therefore argue the need for significant increases in scale fees across the board. They have also highlighted again their concerns about the problems created by the low scale fees applicable for some smaller opted-in authorities.

**38.** Responses from opted-in bodies and firms have expressed concern that uncertainty about audit fees is likely to continue to have an adverse impact on the relationship between audit firms and opted-in bodies, especially with many more changes likely in the medium term.

### Fee variations

**39.** There are many comments from opted-in bodies about the principle of fee variations in the responses, some welcoming the opportunity for individual discussion about additional

fees, and others raising significant concerns about additional charges and about the time and effort required to consider and agree them. Responses from firms also raise concerns about the impact on audit fees of increased regulation and technical requirements, a perceived lack of clarity and certainty on fees, and the difficulties created by the shorter accounts timetable.

**40.** 40% of replies from opted-in bodies requested guidance from PSAA to help them better understand additional fee requests from firms. Although we do not have a remit to provide technical guidance to authorities or auditors, we will provide more information and analysis on actual average additional fees by type of body for 2018/19 (and future years) once we have more complete data. Additionally, when the NAO has finalised the Auditor Guidance Notes (AGNs) on the new Code's approach to work on VFM arrangements, we will review the likely impact on fees and may be in a position to provide an indicative range for different types of opted-in bodies.

**41.** Almost half the bodies that responded to the consultation are concerned that fee variations requested by auditors may be too high, or that this approach could lead to inconsistency across the country. Some bodies are worried that auditors want to charge higher fees to recover perceived losses as a result of their bids in the 2017 procurement. It is important to recognise that audits undertaken since the 2017 procurement need to respond to the regulatory challenges that have emerged subsequently.

**42.** The process PSAA has put in place for approving fee variations is subject to careful checks and balances. Auditors are required to discuss and seek to agree any relevant proposals with an appropriate representative of the body concerned, and all proposed variations are subject to challenge and approval by PSAA.

**43.** The timing and clarity of auditors' communication with opted-in bodies on fee variations was also raised in the 2020/21 consultation responses. Bodies have stated that they do not receive information about additional work which the auditor may need to undertake until very near to the end of the audit process. PSAA has stressed to the audit firms that bodies need this information at the earliest possible opportunity (noting that unforeseen issues may arise during the audit process). We have emphasised that wherever possible auditors should highlight at the planning stage any additional work which is likely to be required during the audit, with an indication of the potential fee implications, and we understand that this is happening in practice.

**44.** The firms also have concerns that the fee variations process is time consuming and onerous, especially when the audited body has agreed the additional fee. One suggestion made by a firm was for PSAA to focus only on those cases where fees cannot be agreed by the auditor and the body. PSAA is committed to reviewing the fee variation process within the framework of our responsibilities under the Regulations, which effectively require that we consider every fee variation proposal.

## **Other issues raised by opted-in bodies**

**45.** The consultation responses from opted-in bodies also raised a wide variety of other issues. For example, there are concerns that:

- low fees are reducing the quality of service;
- the delivery of 2019/20 audits could be problematic given the issues in 2018/19; and
- private sector focused regulations are not relevant for local audit.

**46.** We will respond to these matters in our Q&As.

### **Other issues raised by firms**

**47.** Some firms who responded to our fee scale consultation questioned the appropriateness of continuing to apply the 23 per cent reduction to bodies with low scale audit fees, particularly pension funds. The main points they expressed concerns about are:

- irrespective of size and complexity, there are core audit requirements that auditors have to meet in order to complete an audit which is compliant with the requirements of the Code of Audit Practice and professional standards, including the same suite of auditor reports and attendance at similar numbers of meetings with those charged with governance; and
- in relation to pension funds, the complexity of auditing the estimates inherent in a defined benefit scheme and recent changes in arrangements for pooling investments, and the need to provide assurance to other admitted bodies' auditors are not adequately reflected in the current scale fee.

**48.** The standard hourly rates provided by PSAA for charging for additional Code-related work have been adjusted in line with fee reductions over the years. Several firms challenged the logic of reducing the rates in this way. As part of the research and analysis mentioned above, PSAA will explore these concerns around fee variations and hourly rates in more detail in the context of all comments received from stakeholders.

**49.** The firms have highlighted concerns that the diminished attractiveness of the audit profession and a shortage of skilled public sector auditors is resulting in difficulty in recruiting and training staff. Feedback included that public sector audit suppliers have experienced higher attrition rates caused by regulatory pressure, increasing complexity and risk profile, the accelerated accounts closure timetable and the pressure audit teams experience when there is a lack of understanding of professional audit requirements.

**50.** Firms are also concerned that:

- authorities do not allocate sufficient resources to the audit process and are not well prepared for it. Two firms commented that the finance functions in councils have been eroded over many years of austerity and have much less capacity, technical skills and experience to cope with an increasingly complex environment;
- local public audit operates on much lower profit margins than other parts of the business and is seen to be a less attractive area of work; and
- barriers to entry within the market are significant and, if one more major firm exits, it may be difficult for the market to continue to meet the sector's needs.

## 2020/21 fee scale

### Fee scale

**51.** After careful consideration of the issues raised in the feedback to our consultation and the factors affecting auditors' work set out in this fee scale document, PSAA has set the scale fee for 2020/21 on the basis that scale audit fees for opted-in bodies will remain unchanged from the fee scale applicable for 2019/20. We recognise that this decision will disappoint a number of stakeholders who would prefer PSAA to make an "across the board" increase to fees. However, there are several reasons why we believe that would not be the best way forward:

- In our view it is crucially important that auditors maintain a regular dialogue with audited bodies to ensure that there is a good understanding in relation to new factors impacting the audit and the auditor's work.
- It is important that firms explain the factors concerned, many of which hinge upon their responses to specific feedback and criticism from the regulator.
- Scale fees are intended to reflect local audit risk although clearly they can never be a definitive measure of risk. We see local discussions as a means of not only improving the dialogue between auditors and audited bodies but also of updating audit fees to reflect changing risks. Across the board fee changes for factors other than pooling of firms' bid prices would conflict with a risk-based approach.
- Given the current rapid pace of change and the requirement to set the fee scale so far in advance of the conduct of audits, PSAA simply does not have sufficient information about how changes will affect the amount of work that auditors will need to undertake to deliver Code-compliant 2020/21 audits.

**52.** We therefore request auditors and audited bodies to work closely together in order to develop a shared understanding of the issues which are likely to impact the 2020/21 audit, their implications for audit work and fees. In turn, PSAA, will play its part in scrutinising and ruling on any proposals for resulting fee variations.

**53.** In the light of the feedback we received about late notification of additional audit fees, we encouraged auditors to discuss the relevant issues and their local implications with bodies at the audit planning stage rather than late in the audit. We expect auditors to give notice of factors which may require additional work as soon as possible, and also to help identify any actions which the body might take to mitigate the amount of work the auditor needs to undertake.

**54.** In discussing the fee consequences of any factors, it is important that the parties consider both short- and longer-term implications. Some issues will have a one-off impact, affecting a single year and resulting in a fee variation proposal for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These may point to a need to alter the body's scale fee, ensuring that it remains appropriately aligned to audit risk.

**55.** Individual 2020/21 scale fees for opted-in authorities are available on the [2020/21 scale of fees](#) page of our website.

## Fee variations process

**56.** The nature of audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to vary the audit fee payable by an opted-in authority where it considers substantially more or less audit work is required than envisaged by the scale fee (which is set based on the most recent audit year for which complete fee information is available). Where it becomes clear that audit risk or complexity is significantly different from the level identified and reflected in the scale fee, the auditor may request a variation to the scale fee.

**57.** Variation requests must be made to PSAA by the auditor using a standard process. PSAA is expecting discussions between the auditor and the body to take place as early as possible in the audit cycle, and ideally for the auditor to obtain agreement from the authority to the proposed variation before seeking approval from PSAA. The auditor cannot invoice an audited body until PSAA has approved the request.

**58.** Scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements with supporting working papers within agreed timeframes. Where an authority is unable to fulfil these requirements, fee variations potentially apply.

**59.** PSAA regularly obtains updated fee information in relation to any proposed variations from the scale fee from appointed auditors and considers the reasonableness of the explanations provided by auditors. For example, PSAA considers fee variations in relation to Code changes, regulatory changes and late or poor preparation of working papers are potentially valid (subject to individual circumstances and the body's observations). However, we would not agree fee variations where it is clear the work relates to non-code work, or is covered by the scale fee or arises from auditor-related issues such as members of the audit team being inadequately prepared.

**60.** Fees are chargeable when auditors carry out work in line with their other responsibilities, such as considering information provided by third parties, objections or carrying out other investigations.

## Statement of responsibilities

**61.** The [statement of responsibilities of auditors and audited bodies](#) applies to the work covered by the fee scale set out in this document. The statement effectively represents the terms of engagement between appointed auditors and audited bodies, and summarises their respective responsibilities.

## Value added tax

**62.** All the 2020/21 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

## Key factors affecting audit fees for 2020/21

**63.** The background to setting the 2020/21 fee scales is unusually turbulent and challenging for many reasons. We have been communicating with opted-in authorities on these matters in writing and at meetings of both our Advisory Panel and the Local Audit Quality Forum to help understanding of the context.

**64.** The key factors affecting the fee setting process for 2020/21 are set out in more detail in this section.

**65.** Following a number of high-profile corporate failures in the private sector, the role and performance of auditors is under intense scrutiny with a consequent increase in audit work to deliver a safe opinion. The Government's response to the Kingman, Competition and Markets Authority and Brydon Reviews will hopefully bring welcome certainty for the industry in due course. The Redmond Review is looking specifically at local audit and accounting and will conclude later in the year, with recommendations that will have an impact on the future of local audit.

**66.** PSAA recently commissioned an independent review of the sustainability of the local government audit market to help understanding of the current market. The review was undertaken by an independent consultancy, Touchstone Renard (TR).

**67.** The TR report draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regularity pressure on the auditing profession; the resulting recruitment and retention challenges facing firms; the challenges of a demanding timetable for publication of audited accounts; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams.

**68.** In addition to the factors mentioned in this section, the ongoing coronavirus pandemic has produced an additional layer of risk and uncertainty. Whilst it is not clear what the consequences will be, there is a real risk that it may impact the availability of both audited body and audit firm staff across all sectors, creating further difficulties for local government in relation to both 2018/19 delayed opinions and the 2019/20 audits. PSAA will be keeping the situation under review.

### New Code of Audit Practice

**69.** The current Code of Audit Practice came into force on 1 April 2015, and the new Code will apply from 1 April 2020 for 2020/21 onwards.

**70.** The current Code requires the auditor to give an opinion on the financial statements of a body subject to audit under the 2014 Act, and a conclusion on the arrangements for value for money (VFM). The new Code requires a sharper focus on VFM arrangements, with specific reporting criteria on: financial sustainability, governance, and improving economy, efficiency and effectiveness. It also requires auditors to provide a commentary on their findings, rather than the current requirement to state a conclusion on whether the audited body did or did not have appropriate arrangements in place.

**71.** The new Code states that determining how much work to do on arrangements to secure VFM is a matter of auditor judgement, based on the requirements set out in the Code and

supporting guidance. Supporting AGNs will be published later in 2020 and will provide more detail on the work required.

**72.** The extent of additional work on VFM arrangements will depend on local circumstances and may vary from year to year and from authority to authority. Further, there may be a one-off effect as both authorities and auditors make the transition from old to new requirements and lay the foundations for appropriate audit coverage.

**73.** Early discussions between auditors and authorities about the new Code requirements will be helpful. However, definite conclusions about implications for audit risk and workplans will need to have regard to relevant guidance (AGNs) when available.

**74.** PSAA will also be able to consider the impact of the new Code requirements in more depth once the AGNs are finalised. At that stage we hope to be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

## **Financial reporting requirements**

**75.** The 2020/21 scale fees reflect the audit work needed at audited bodies based on current financial reporting requirements. Any changes to these requirements may have an implication for the extent of audit work required to deliver an appropriate level of assurance.

**76.** For example, from 2020/21 the Code of Practice on Local Authority Accounting issued by CIPFA/LASSAC requires the adoption of the requirements of an updated version of IFRS16<sup>1</sup> on the treatment of leases. The changes to the requirements may mean additional work is needed.

**77.** The impact of the standard will vary between authorities and accounting periods, based on factors such as the volume of leases and quality of documentation, which make it difficult to estimate with any accuracy the potential impact on individual authorities at this stage. Auditors will need to have local discussions with individual opted-in bodies about IFRS16 as the bodies will need to disclose the estimated impact in their accounts. These discussions will inform the auditor's judgement about the amount of additional audit work needed. Bodies may wish to discuss with auditors if there are any actions which they can take to reduce the extent of additional audit work needed.

## **Professional standards applicable to auditors' work**

**78.** Auditors are under increasing pressure to demonstrate greater professional scepticism when carrying out their work, for example, by exercising greater challenge in areas where management makes judgements or relies on advisers/experts. The International Auditing and Assurance Standards Board (IAASB) has revised its standard on accounting estimates, 'ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures', to respond to the evolving business environment.

**79.** The revision is intended to ensure that the standard continues to keep pace with the changing market and fosters a more independent and challenging/sceptical mind-set in auditors. Audit firms in turn have updated their work programmes and reinforced their internal processes to meet the new expectations.

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<sup>1</sup> IFRS16 - as a result of the coronavirus this has now been deferred to 2021/22. However, the 2020/21 statements of accounts will need to disclose the impact of IFRS16 and so preparers and auditors of accounts will need to carry out sufficient work to ensure that the disclosure is appropriate.

**80.** ISA 540 (Revised) becomes effective for financial statement audits for periods beginning on or after 15 December 2019 and will therefore apply for 2020/21 audits. The current version of the standard has 23 required procedures for auditors to apply to test each significant estimate in the accounts; the revised standard has 39.

**81.** These changes are likely to have a variable impact on 2020/21 audit plans depending on the type, number and significance of estimates included in an individual authority's financial statements.

**82.** More generally, regulatory standards are being raised and seem set to continue to do so in response to widely reported financial failures in the private sector and resulting reviews commissioned by government. Current regulatory practice is to apply standards to all relevant audits, unless specifically dis-applied or adapted (for example by Practice Note10).

### **Timetable for setting fee scales**

**83.** PSAA has to set the scale of audit fees in accordance with the timetable prescribed in statutory regulations, which requires the scale of fees to be fixed before the start of the relevant year of account.

**84.** 2018/19, the first year of audit, has been difficult for all participants in the local audit market. Disappointingly the number of delayed audit opinions in local government rose sharply for 2018/19. More than 40% (210 out of 486) of audit opinions were not available by the target date of 31 July 2019. Near the end of March 2020 there remain over 60 opinions outstanding. This is an incredibly unsatisfactory position, particularly for all the bodies concerned, and a significant concern going forward.